

Message Text

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ACTION AF-10

INFO OCT-01 ARA-10 EUR-12 EA-07 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-08 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00

NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15

STR-04 TRSE-00 ACDA-07 IO-13 PA-01 PRS-01 /154 W

-----009294 061102Z /12

P R 051534Z AUG 77

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC PRIORITY 2744

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD

AMEMBASSY CARACAS

AMCONSUL DHARAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMCONSUL KADUNA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

C O N F I D E N T I A L LAGOS 8826

E.O. 11652: N/A

TAGS: ENRG, NI

SUBJECT: NIGERIAN OIL PRODUCTION SLUMPS: FMG CONCERNED ABOUT

OIL RESERVES AND MAY BE RESTRICTING OUTPUT

INTENTIONALLY

REF: LAGOS 8681

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SUMMARY: NIGERIAN CRUDE OIL PRODUCTION SLUMPED IN JUNE AS EXPECTED
BECAUSE CUSTOMERS NO LONGER WILLING TO ABSORB LOSSES FROM FMG
OVERPRICING AND ARE FAILING TO LIFT ON SCHEDULE, CAUSING PRODUCING
COMPANIES, WHOSE STORAGE TANKS ARE FULL, TO SHUT DOWN PRODUCTION
INTERMITTENTLY. HOWEVER, IT ALSO APPEARS THAT FMG, SUDDENLY CONCERNED
THAT PROVEN OIL RESERVES ARE MUCH SMALLER THAN COMMONLY BELIEVED.

MAY INTENTIONALLY BE RESTRICTING PRODUCTION BY ALLOWING OVERLY HIGH PRICES TO REMAIN IN EFFECT, THUS PROLONGING LIFE OF KNOWN RESERVES UNTIL NEW STUDY OF RESERVES PROVES CONCERN UNJUSTIFIED OR UNTIL RECENTLY ANNOUNCED INVESTMENT INCENTIVES RESULT IN EXPLORATION AND DEVELOPMENT OF SIGNIFICANT NEW RESERVES. THOUGH REVENUE NEEDS PLACE LIMITS ON HOW FAR PRODUCTION CAN BE CUT BACK, INFORMED SOURCES BELIEVES FMG WILLING TO SEE OUTPUT FALL AS LOW AS 1.5 MILLION BARRELS PER DAY. ALTHOUGH U.S. DEMAND FOR NIGERIAN CRUDE DEPRESSED AT MOMENT, U.S. COULD FEEL PINCH IN ACCESS TO LIGHT CRUDE SUPPLIES LATER ON. END SUMMARY.

1. UNOFFICIAL PRELIMINARY FIGURES JUST RELEASED SHOW CRUDE OIL PRODUCTION IN JULY 1977 AVERAGED 2,057,202 BARRELS PER DAY (B/D), DOWN 179,055 B/D OR 8 PERCENT FROM JUNE. VIRTUALLY ALL COMPANIES REGISTERED LOWER PRODUCTION.

2. REFTEL REPORTED OIL COMPANIES CONVINCED PRODUCTION WILL DROP FURTHER IN AUGUST. REASON USUALLY CITED IS REFUSAL OF BUYERS TO CONTINUE ABSORBING LOSSES RESULTING FROM OVERPRICING OF NIGERIAN CRUDE BY NIGERIAN NATIONAL PETROLEUM CORPORATION (NNPC) IN APRIL. HOWEVER, IT NOW APPEARS NNPC MAY BE CUTTING BACK PRODUCTION INTENTIONALLY BY ALLOWING OVERLY HIGH PRICE TO REMAIN IN EFFECT.

3. INDEPENDENT NIGERIAN PETROLEUM CONSULTANT WITH GOOD ACCESS TO NNPC OFFICIALS, INCLUDING CHAIRMAN BUBARI, TOLD EMBASSY PETROLEUM OFFICER AUGUST 4 THAT NNPC OFFICIALS HAVE FINALLY SUCCEEDED IN CONFIDENTIAL

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GETTING TOPMOST FMG LEADERS TO ACCEPT NNPC ADMONITION THAT, AS

RESULT OF LOW LEVELS OF INVESTMENT IN EXPLORATION FOR AND DEVELOPMENT OF NEW RESERVES OVER PAST TWO YEARS, NIGERIA'S EXISTING OIL RESERVES ARE FAR SMALLER THAN COMMONLY BELIEVED IN FMG CIRCLES. NNPC OFFICIALS BELIEVE, FOR EXAMPLE, THAT MOBIL OIL, IF ITS PRODUCTION WERE TO CONTINUE AT PEAK APRIL LEVELS, HAS RECOVERABLE RESERVES SUFFICIENT TO LAST ONLY 5 OR 6 MORE YEARS. SITUATION IS CONSIDERED SUFFICIENTLY SIMILAR IN CASE OF SEVERAL OTHER COMPANIES TO HAVE GENERATED MILD PANIC AMONG NATIONAL LEADERSHIP.

4. IN FIRST QUARTER, FEELING REVENUE PINCH, FMG LEADERS TOLD NNPC TO MAXIMIZE OIL PRODUCTION, RESULTING IN HIGH LEVELS OF PRODUCTION IN MARCH AND APRIL. HOWEVER, POLICY HAS NOW UNDERGONE SUDDEN 180 DEGREE REVERSAL. NIGERIAN CONSULTANT BELIEVES NNPC NOW HAS GREEN LIGHT FROM NNPC TO ALLOW PRODUCTION TO FALL AS FAR AS 1.5 MILLION B/D. CONSULTANT SAYS NNPC RESERVOIR ENGINEERS HE KNOWS ARE VERY BUSY TRYING TO COMPLETE NEW ANALYSIS OF RESERVES FOR FMG. AIM OF POLICY IS TO CONSERVE KNOWN RESOURCES OVER NEXT YEAR OR TWO WHILE WAITING TO SEE IF NEW INCENTIVES GRANTED OIL COMPANIES TO INCREASE THEIR INVESTMENTS IN EXPLORATION AND DEVELOPMENT WILL IN FACT YIELD SUBSTANTIAL NEW RESERVES. IF THEY

DO NOT, RESTRICTED PRODUCTION WILL BECOME AN ABSOLUTE NECESSITY. IF THEY DO, PRODUCTION CAN BE RESTORED TO HIGHER LEVELS. PRODUCTION RESTRICTIONS MIGHT ALSO BE RELAXED EARLIER IF NNPC RESERVE ANALYSIS REVEALS SITUATION LESS WORRISOME THAN FEARED.

5. NIGERIAN CONSULTANT'S COMMENTS TEND BE CONFIRMED BY ADDITIONAL STATEMENT O. A. OKANLA MADE DURING CONVERSATION REPORTED REFTEL TO EFFECT THAT NIGERIAN PEOPLE MUST REALIZE OIL RESOURCES LIMITED AND COUNTRY WILL HAVE TO LEARN TO LIVE WITHIN ITS MEANS. INTENSE CONCERN ABOUT LONGEVITY OF RESERVES ALSO EXPRESSED BY AN ASSISTANT TO CHIEF OF STAFF YAR ADUA IN CONVERSATION WITH MEMBER OF AID TEAM CURRENTLY NEGOTIATING WITH FMG'S TOP LEVEL MID-LEVEL MANPOWER TRAINING PROGRAM COMMITTEE.

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6. OIL PRODUCING COMPANIES APPEAR TO BE SYMPATHETIC WITH NNPC'S INTEREST IN CONSERVATION, ESPECIALLY SINCE THEY HAVE WARNED THAT DISCOURAGING INVESTMENT POLICIES WOULD PRODUCE SUCH A RESULT. HOWEVER, THEY ARE CONCERNED THAT NEGATIVE IMPACT OF PRODUCTION RESTRICTIONS ON CASH FLOWS WILL OFFSET NEW INVESTMENT INCENTIVES.

7. AS LONG AS U.S. DEMAND FOR LIGHT CRUDES REMAINS DEPRESSED AS AT PRESENT, NIGERIAN DECISION TO CONSERVE RESERVES WOULD NOT MATERIALLY AFFECT U.S. INTERESTS IN ACCESS TO CRUDE SUPPLIES. HOWEVER, IT COULD DO SO LATER, AND IT SURE TO EXERT UPWARD PRESSURE ON PRICE U.S. WILL HAVE TO PAY FOR NIGERIAN CRUDE, AND PERHAPS OTHER LIGHT CRUDES AS WELL. WILL ATTEMPT TO OBTAIN FURTHER CONFIRMATION OF EXISTENCE OF CONSERVATION POLICY AND NNPC/FMG THINKING.
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